

MARKSCHEME

May 2002

ECONOMICS

Higher Level

Paper 2

Question 1 Price of tickets for a tennis tournament

Candidates are expected to produce the standard demand and supply diagram with a maximum price set below the equilibrium, with demand exceeding supply and supply being fixed. Consequences might include shortages/queues, an “unofficial market” and the need for a rationing system, e.g. first come first served.

*Give a maximum of [3 marks] for an accurately drawn diagram only with no accompanying explanation. Give a maximum of [7 marks] for an explanation without a diagram. Award a maximum of [3 marks] for an incorrect diagram **and** explanation, e.g., in terms of shifts of the demand curve.*

High scoring answers are likely to incorporate the diagram into the body of the text in examining the likely consequences. Two of these consequences discussed fully, with a correct diagram, would be sufficient to enter the top mark band.

Question 2 Reduction in passenger fares

Candidates might answer this question in terms of the following: movement along a demand curve; price elasticity of demand/total revenue; cross elasticity of demand; price discrimination; income and substitution effects; price cuts in the context of different market forms, e.g. kinked demand curve under oligopoly; price wars, wider outcomes for the economy, e.g. externality effects.

High scoring answers are likely to make some use of a diagram/diagrams, although this is not essential, and are likely to develop two points in reasonable detail, or several points in less detail.

Question 3 AD/AS analysis

An increase in interest rates is likely to have a two-fold effect - AD will shift to the left as consumption and investment fall; and AS will shift to the left as business costs rise. The overall effect on the price level and output will depend on which shift is the greatest.

The majority of candidates are likely to consider the impact on AD. If this is done well with an accurately drawn and labelled diagram, with the linkages fully explained, full marks can be earned. If only the demand side is considered, both the impact on consumption and investment must be explained to gain full marks.

Question 4 Government controlling increases in its expenditure

Reasons might include: to control inflation/to deflate aggregate demand; to control the extent of government borrowing/facilitate debt repayment; to balance the budget; to keep tax levels down; to prevent crowding out; a belief in market forces; to prevent a worsening of the current account

*For [10 marks] candidates need to examine two reasons, but **one** reason considered well could earn a maximum of [6 marks].*

Question 5 Depreciation and the balance of payments

Candidates might start by explaining what a depreciation is and the effect of this on export and import prices. Reasons for not helping the balance of payments might include: Marshall Lerner condition not fulfilled; the J curve effect; importance of non-price factors; possibility of competitive depreciations; rising import costs causing a loss of competitiveness as a result of inflation.

To earn full marks the Marshall Lerner condition could be explained fully (although the official name does not need to be stated), or any two factors could be explained in depth, or several in less depth. To reach band 4, candidates must make explicit reference to export revenues and import expenditure in the context of the Marshall/Lerner condition/J curve effect.

Question 6 Economic development

Candidates should define economic development. Greater equality of income might aid development by: increasing aggregate demand (poor have a high MPC); facilitate greater access to health and education; unlock unrealised talents of the poor and women, increase their incentives and increase aggregate supply and economic efficiency; necessitate less government spending on welfare payments and more on capital projects; the link between income, savings, investment and growth; empirical evidence on the case for greater equality.

Full marks could be earned by explaining two points well. A maximum of [3 marks] should be awarded for an answer which does not progress beyond a superficial explanation of what development is.
